Nala Local Municipality

Annual Financial Statements

for the year ended 30 June 2015

General Information

Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Legal form and legislation governing the operations	Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Mayoral committee	
Executive Mayor	Mogoje T
Speaker	Hlathi MN
Councillors	Moses SS Lenake MR Mabeleng JM Thebehae TL Bopiko MH Tutubala MM Nieuwoudt PL Botma HJ Mokolutlo RJ Radebe PS Leburu PK Mamatela JP Moepi PA Moshane ZM Marumule MS Motsoeneng NM Maas V Dogeni MJ Mpesi MM Masisi D Mohloare TA Ramaele R
Accounting Officer	Mokomela BC
Chief Financial Officer (CFO)	Sandile Busakwe Appointed 01/11/2013
Grading of local authority	Category 4 Local Municipality Medium Capacity Municipality
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660
Bankers	First National Bank
External auditors	Auditor-General of South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the finance department of the municiaplity in terms of preparation of the AFS and by internal audit in terms of review of internal financial controls.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 4 to 52, which have been prepared on the going concern basis, were approved by the accounting officer on 28 August 2015 and were signed on its behalf by:

Mokomela BC
Accounting Officer

28 August 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Inventories	8	1,676,641	1,799,353
Other receivables from exchange transactions	9	14,980,397	9,894,398
VAT receivable	16	22,936,974	-
Consumer debtors	10	24,900,918	42,589,399
Cash and cash equivalents	11	14,876,584	31,954,136
		79,371,514	**86,237,286**
Non-Current Assets			
Property, plant and equipment	3	1,842,925,007	1,845,848,653
Intangible assets	4	725,599	1,066,396
Other financial assets	6	123,772	118,176
		1,843,774,378	**1,847,033,225**
Total Assets		**1,923,145,892**	**1,933,270,511**
Liabilities			
Current Liabilities			
Other financial liabilities	13	11,240,273	-
Payables from exchange transactions	15	229,752,856	173,200,427
VAT payable	16	-	15,252,619
Consumer deposits	17	1,758,621	1,565,068
Employee benefit obligation	7	6,049,000	3,363,000
Unspent conditional grants and receipts	12	2,505,061	7,558,916
		251,305,811	**200,940,030**
Non-Current Liabilities			
Other financial liabilities	13	43,453,244	48,506,710
Employee benefit obligation	7	38,687,000	38,010,000
Provisions	14	24,242,525	23,384,607
		106,382,769	**109,901,317**
Total Liabilities		**357,688,580**	**310,841,347**
Net Assets		**1,565,457,312**	**1,622,429,164**
Accumulated surplus		1,565,457,312	1,622,429,164

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Property rates	19	16,016,943	12,061,322
Service charges	20	137,427,764	128,117,188
Rental of facilities and equipment		305,262	60,056
Fines		141,252	70,130
Government grants and subsidies	21	189,271,118	207,196,051
Interest received		1,783,244	1,318,580
Dividends received		5,988	6,460
Interest received (trading)		13,168,002	10,536
Discount received		120,269	-
Other income	22	7,508,004	12,080,194
Total revenue		**365,747,846**	**360,920,517**
Expenditure			
Employee related costs	24	(120,761,102)	(111,711,831)
Remuneration of councillors	25	(7,132,602)	(6,976,999)
Depreciation and amortisation	28	(46,853,190)	(45,453,641)
Impairment (loss)/ Reversal of impairments		(6,444,299)	-
Finance costs	29	(26,299,967)	(21,094,709)
Debt Impairment	26	(57,960,158)	(32,216,556)
Repairs and maintenance		(7,802,721)	(4,745,926)
Bulk purchases	32	(97,023,563)	(86,359,871)
Contracted services	31	(14,238,955)	(17,354,917)
General Expenses	23	(24,516,762)	(27,305,496)
Total expenditure		**(409,033,319)**	**(353,219,946)**
Operating (deficit) surplus		**(43,285,473)**	**7,700,571**
Loss on disposal of assets		(401,800)	-
(Deficit) surplus for the year		**(43,687,273)**	**7,700,571**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance	727,618,612	727,618,612
Adjustments		
Correction of errors	888,875,890	888,875,890
Balance at 01 July 2013 as restated*	**1,616,494,502**	**1,616,494,502**
Changes in net assets		
Directly against accumulated surplus	(1,765,909)	(1,765,909)
Net income (losses) recognised directly in net assets	(1,765,909)	(1,765,909)
Surplus for the year	7,700,571	7,700,571
Total recognised income and expenses for the year	5,934,662	5,934,662
Total changes	5,934,662	5,934,662
Balance at 01 July 2014	**1,622,429,164**	**1,622,429,164**
Changes in net assets		
Loss for the year	(43,687,273)	(43,687,273)
Directly against accumulated surplus	(13,284,579)	(13,284,579)
Total changes	(56,971,852)	(56,971,852)
Balance at 30 June 2015	**1,565,457,312**	**1,565,457,312**
Note(s)		

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services and other		166,131,792	144,168,708
Grants		182,558,515	193,698,000
Interest income		1,783,244	1,318,580
Dividends received		5,988	6,460
		350,479,539	339,191,748
Payments			
Employee costs		(122,609,520)	(115,127,110)
Suppliers and other		(174,393,993)	(123,899,986)
Finance costs		(26,299,967)	(21,094,709)
		(323,303,480)	(260,121,805)
Net cash flows from operating activities	33	**27,176,059**	**79,069,943**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(50,383,507)	(68,806,125)
Purchase of other intangible assets	4	(51,315)	(50,157)
Proceeds from sale of financial assets		(5,596)	(2,341)
Net cash flows from investing activities		**(50,440,418)**	**(68,858,623)**
Cash flows from financing activities			
Repayment of other financial liabilities		6,186,807	6,506,074
Net cash flows from financing activities		**6,186,807**	**6,506,074**
Net increase/(decrease) in cash and cash equivalents		**(17,077,552)**	**16,717,394**
Cash and cash equivalents at the beginning of the year		31,954,136	15,236,742
Cash and cash equivalents at the end of the year	11	**14,876,584**	**31,954,136**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	17,500,000	(189,000)	17,311,000	(1,235,850)		16,075,150	16,016,943		(58,207)	100 %	92 %
Service charges	182,523,000	(34,753,000)	147,770,000	(10,169,239)		137,600,761	137,427,764		(172,997)	100 %	75 %
Investment revenue	-	2,082,000	2,082,000	(298,756)		1,783,244	1,789,232		5,988	100 %	DIV/0 %
Transfers recognised - operational	132,329,000	1,300,000	133,629,000	3,032,754		136,661,754	147,859,058		11,197,304	108 %	112 %
Other own revenue	5,817,000	5,915,000	11,732,000	9,114,432		20,846,432	21,242,789		396,357	102 %	365 %
Total revenue (excluding capital transfers and contributions)	**338,169,000**	**(25,645,000)**	**312,524,000**	**443,341**		**312,967,341**	**324,335,786**		**11,368,445**	**104 %**	**96 %**
Employee costs	(112,082,000)	(7,131,000)	(119,213,000)	(1,545,557)	-	(120,758,557)	(120,761,102)	-	(2,545)	100 %	108 %
Remuneration of councillors	(7,699,000)	672,000	(7,027,000)	(62,361)	-	(7,089,361)	(7,132,602)	-	(43,241)	101 %	93 %
Debt impairment	(66,644,000)	16,035,000	(50,609,000)	(7,351,158)		(57,960,158)	(57,960,158)	-	-	100 %	87 %
Depreciation and asset impairment	(90,000,000)	10,000,000	(80,000,000)	26,792,517		(53,297,483)	(53,297,489)	-	(6)	100 %	59 %
Finance charges	(8,000,000)	(7,776,000)	(15,776,000)	(10,523,967)	-	(26,299,967)	(26,299,967)	-	-	100 %	329 %
Materials and bulk purchases	(98,755,000)	3,257,000	(95,498,000)	(1,525,563)	-	(97,023,563)	(97,023,563)	-	-	100 %	98 %
Transfers and grants	-	-	-	(58,207)	-	(58,207)	-	-	58,207	- %	DIV/0 %
Other expenditure	(50,944,000)	(3,149,000)	(54,093,000)	7,623,629	-	(46,469,371)	(46,960,238)	-	(490,867)	101 %	92 %
Total expenditure	**(434,124,000)**	**11,908,000**	**(422,216,000)**	**13,259,333**	**-**	**(408,956,667)**	**(409,435,119)**	**-**	**(478,452)**	**100 %**	**94 %**
Surplus/(Deficit)	**(95,955,000)**	**(13,737,000)**	**(109,692,000)**	**13,702,674**		**(95,989,326)**	**(85,099,333)**		**10,889,993**	**89 %**	**89 %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	43,086,000	19,730,000	62,816,000	(21,403,940)		41,412,060	41,412,060		-	100 %	96 %
Surplus (Deficit) after capital transfers and contributions	**(52,869,000)**	**5,993,000**	**(46,876,000)**	**(7,701,266)**		**(54,577,266)**	**(43,687,273)**		**10,889,993**	**80 %**	**83 %**
Surplus/(Deficit) for the year	**(52,869,000)**	**5,993,000**	**(46,876,000)**	**(7,701,266)**		**(54,577,266)**	**(43,687,273)**		**10,889,993**	**80 %**	**83 %**
Capital expenditure and funds sources											
Cash flows											
Net cash from (used) operating	53,014,000	9,430,000	62,444,000	(35,267,941)		27,176,059	27,176,059		-	100 %	51 %
Net cash from (used) investing	(53,086,000)	(12,430,000)	(65,516,000)	15,075,582		(50,440,418)	(50,440,418)		-	100 %	95 %
Net cash from (used) financing	-	-	-	6,186,907		6,186,907	6,186,807		(100)	100 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**(72,000)**	**(3,000,000)**	**(3,072,000)**	**(14,005,452)**		**(17,077,452)**	**(17,077,552)**		**(100)**	**100 %**	**23,719 %**
Cash and cash equivalents at the beginning of the year	15,000,000	-	15,000,000	16,954,136		31,954,136	31,954,136		-	100 %	213 %
Cash and cash equivalents at year end	**14,928,000**	**(3,000,000)**	**11,928,000**	**2,948,684**		**14,876,684**	**14,876,584**		**100**	**100 %**	**100 %**

Accounting Policies

1. Presentation of Annual Financial Statements

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy."

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Accounting Officer makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or
- for administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Useful life
Land	Indefinite
Buildings	15-30 years
Infrastructure	
• Electricity	5-60 years
• Roads	7-30 years
• Structures	80 years
• Storm water drainage	60 years
• Sewer reticulation	30 years
• Waste water treatment works	10-80 years
• Water reticulation	5-60 years
Community	20-30 years

Accounting Policies

1.5 Property, plant and equipment (continued)

Other property, plant and equipment

• Furniture and Fittings	7-10 years
• IT Equipment	3-5 years
• Landfill sites	15 years
• Lease assets	3-5 years
• Office Equipment	3-5 years
• Plant and Machinery	5-15 years
• Vehicles	5-7 years
• Airports	5-10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	4 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Accounting Policies

1.7 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

Accounting Policies

1.9 Inventories (continued)

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.10 Impairment of cash-generating and non-cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification
When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use
Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cashgenerating assets remaining service potential.

When estimating the value in use of a cash-generating asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:
- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

Recognition and measurement
If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss
The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount or recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.10 Impairment of cash-generating and non-cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation
The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cashgenerating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans

The entity classifies a multi-employer as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement

The entity determine the present value of defined benefit obligations with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the entity attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the entity attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Accounting Policies

1.11 Employee benefits (continued)

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets (if any).

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Accounting Policies

1.12 Provisions and contingencies (continued)

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

Accounting Policies

1.20 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	Not material
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	Not material
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	Not material
• GRAP 107: Mergers	01 April 2015	Not material
• GRAP 20: Related parties	01 April 2015	Not material
• IGRAP 11: Consolidation – Special purpose entities	01 April 2015	Not material
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	Not material
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015	Not material
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2015	Not material
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015	Not material
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	Not material
• GRAP108: Statutory Receivables	01 April 2015	Not material
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	Not material
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2015	Not material

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	777,354,949	-	777,354,949	777,354,949	-	777,354,949
Buildings	153,225,773	(68,272,187)	84,953,586	153,217,464	(61,478,681)	91,738,783
Infrastructure	1,538,701,740	(571,739,430)	966,962,310	1,496,297,843	(527,922,756)	968,375,087
Moveable assets	20,255,993	(6,601,831)	13,654,162	15,323,195	(6,943,361)	8,379,834
Total	**2,489,538,455**	**(646,613,448)**	**1,842,925,007**	**2,442,193,451**	**(596,344,798)**	**1,845,848,653**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	777,354,949	-	-	-	-	777,354,949
Buildings	91,738,783	8,309	-	(3,616,410)	(3,177,096)	84,953,586
Infrastructure	968,375,087	42,840,596	-	(41,355,937)	(2,897,436)	966,962,310
Moveable assets	8,379,834	7,534,602	(401,800)	(1,494,783)	(363,691)	13,654,162
	1,845,848,653	**50,383,507**	**(401,800)**	**(46,467,130)**	**(6,438,223)**	**1,842,925,007**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Depreciation	Total
Land	777,354,949	-	-	777,354,949
Buildings	87,982,498	7,079,927	(3,323,642)	91,738,783
Infrastructure	946,812,995	61,097,359	(39,535,267)	968,375,087
Moveable Assets	9,536,382	628,839	(1,785,387)	8,379,834
	1,821,686,824	**68,806,125**	**(44,644,296)**	**1,845,848,653**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	44,338,927	44,338,927
Additions/capital expenditure	42,840,596	42,840,596
Other movements	(34,792,119)	(34,792,119)
Transferred to completed items	(33,099,027)	(33,099,027)
	19,288,377	**19,288,377**

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	151,607,636	151,607,636
Additions/capital expenditure	60,503,870	60,503,870
Other movements	(274,710)	(274,710)
Transferred to completed items	(167,497,869)	(167,497,869)
	44,338,927	**44,338,927**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

3. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,945,901	(1,220,302)	725,599	1,894,586	(828,190)	1,066,396

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	1,066,396	51,315	(392,112)	725,599

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	48,342	50,157	1,010,873	(42,976)	1,066,396

5. Heritage assets

None

The municipality does not own Heritage assets.

6. Other financial assets

At amortised cost		
Unlisted shares	123,772	118,176
Unlisted shares consist of 8 236 (2014: 8 236) equity shares in Senwesbel Limited and 7 110 (2014: 7 110) equity shares in Senwes Limited		
Non-current assets		
At amortised cost	123,772	118,176

7. Post Employment Medical Aid Provision

Defined benefit plan

Post retirement medical aid plan

Figures in Rand	2015	2014

7. Post Employment Medical Aid Provision (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(44,736,000)	(41,373,000)
Non-current liabilities	(38,687,000)	(38,010,000)
Current liabilities	(6,049,000)	(3,363,000)
	(44,736,000)	**(41,373,000)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(41,373,000)	(40,178,000)
Benefits paid	796,000	928,000
Net expense recognised in the statement of financial performance	(4,159,000)	(2,123,000)
	(44,736,000)	**(41,373,000)**

Net expense recognised in the statement of financial performance

Current service cost	(2,593,000)	(2,879,000)
Interest cost	(3,885,000)	(2,674,000)
Actuarial (gains) losses	2,319,000	3,430,000
	(4,159,000)	**(2,123,000)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.02 %	9.48 %
CPI	6.67 %	7.01 %
Expected increase in healthcare costs	8.17 %	8.51 %
Net discount rate	0.79 %	0.89 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	(1,450,000)	(1,253,000)
Effect on defined benefit obligation	(9,092,000)	(5,686,000)

	2015 R	2014 R	2013 R	2012 R	2011 R
Defined benefit obligation	(44,736,000)	(41,373,000)	(40,178,000)	(29,801,000)	-
Surplus (deficit)	(44,736,000)	(41,373,000)	(40,178,000)	(29,801,000)	-
Experience adjustments on plan liabilities	(379,000)	(1,499,000)	(1,787,000)	-	-

8. Inventories

Consumable stores and water balance	1,676,641	2,036,707
Prior period adjustments	-	(237,354)
	1,676,641	**1,799,353**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

9. Other receivables from exchange transactions

Deposits	-	200,813
Other receivables	14,081,876	688,019
Other debtors	-	8,113,431
Overpayment to councillors	1,478,589	1,460,266
Less provision for bad debt	(580,068)	(568,131)
	14,980,397	**9,894,398**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

10. Consumer debtors

Gross balances		
Rates	24,494,235	21,029,936
Electricity	26,581,689	23,628,980
Water	146,272,799	120,279,564
Sewerage	40,608,524	32,450,348
Refuse	57,298,700	48,003,547
VAT	40,231,887	34,603,647
Other	13,795,263	964,015
	349,283,097	**280,960,037**
Less: Allowance for impairment		
Rates	(21,472,354)	(19,897,025)
Electricity	(20,738,170)	(22,643,170)
Water	(140,153,423)	(116,492,374)
Sewerage	(37,909,307)	(29,746,753)
Refuse	(54,364,252)	(45,051,278)
VAT	(37,825,808)	(3,886,648)
Other	(11,918,865)	(653,388)
	(324,382,179)	**(238,370,636)**
Net balance		
Rates	3,021,881	3,743,585
Electricity	5,843,519	5,492,181
Water	6,119,376	4,783,576
Sewerage	2,699,217	1,904,934
Refuse	2,934,448	2,422,201
VAT	2,406,079	30,530,976
Other	1,876,398	51,470
Prior period adjustments	-	(6,339,524)
	24,900,918	**42,589,399**
Included in above is receivables from exchange transactions		
Electricity	5,843,519	5,492,181
Water	6,119,376	4,783,576
Sewerage	2,699,217	1,904,934
Refuse	2,934,448	2,422,201
VAT	2,406,079	30,530,976
Other	1,876,398	(6,288,054)
	21,879,037	**38,845,814**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

10. Consumer debtors (continued)

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3,021,881	3,743,585
Net balance	**24,900,918**	**42,589,399**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	11,235,877	8,945,997
2 months past due	11,045,486	6,982,688
3 months past due	9,859,289	7,836,082

Consumer debtors impaired

As of 30 June 2015, consumer debtors of R 349,283,097 (2014: R 287,299,561) were impaired and provided for.

The amount of the provision was R - as of 30 June 2015 (2014: R 234,483,988).

The ageing of these loans is as follows:

3 to 6 months	64,700,953	69,002,591
Over 6 months	284,582,144	218,296,970

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(236,486,789)	(201,455,416)
Allowance for impairment	(91,710,504)	(31,648,425)
Other	3,815,114	(5,266,795)
	(324,382,179)	**(238,370,636)**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1,484,866	2,190,513
Call account	13,391,718	29,763,623
	14,876,584	**31,954,136**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
FNB - Current Account 62025990765	1,241,539	6,372,985	1,570,430	1,484,866	2,190,513	846,275
FNB - Money Market 62026222521	4,490,938	20,261,603	4,715,494	4,490,938	20,261,603	4,715,494
FNB - Money Market 62002839506	2,659,579	3,509,287	1,386,649	2,659,579	3,509,287	1,386,649
FNB - Money Market 62373464503	6,241,200	5,992,732	8,288,324	6,241,201	5,992,732	8,288,324
Total	**14,633,256**	**36,136,607**	**15,960,897**	**14,876,584**	**31,954,135**	**15,236,742**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant (MIG)	-	5,003,107
Other Grants	2,505,061	2,555,809
	2,505,061	**7,558,916**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

12. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	7,558,916	16,387,056
Additions during the year	175,215,000	195,348,000
Income recognition during the year	(179,468,747)	(192,494,114)
Income recognition during the year	-	(255,026)
National Treasury office	(4,170,000)	(11,427,000)
Other movements	3,369,892	-
	2,505,061	**7,558,916**
Equitable Share		
Current-year receipts	122,029,000	130,670,000
Transfer from MIG	4,170,000	-
Conditions met - transferred to revenue	(126,199,000)	(130,670,000)
	-	-
Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	5,003,108	16,387,056
Current-year receipts	41,085,600	49,936,750
Conditions met - transferred to revenue	(39,770,645)	(49,893,698)
Transfer to Euquitable Share	(4,170,000)	(11,427,000)
	2,148,063	**5,003,108**
Financial Management Grant		
Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
	-	-
Municipal System Improvement Grant		
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
	-	-
Integrated National Electrification Program Grant		
Balance unspent at beginning of year	2,542,059	-
Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(4,542,059)	-
	-	-
Extended Public Works Program Grant		
Balance unspent at beginning of year	13,750	-
Current-year receipts	1,034,000	1,000,000
Conditions met - transferred to revenue	(1,047,750)	(986,250)
	-	**13,750**
MSIG Operational		
Current-year receipts	2,162,400	-
Conditions met - transferred to revenue	(2,162,400)	-
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
12. Unspent conditional grants and receipts (continued)		
Integrated National Electrification Program Grant		
Current-year receipts	-	20,000,000
Conditions met - transferred to revenue	-	(17,457,941)
	-	**2,542,059**
Municipal Infrastructure Grant - Operational		
Current-year receipts	2,162,400	2,628,250
Conditions met - transferred to revenue	(2,162,400)	(2,628,250)
	-	-
ACIP		
Current-year receipts	1,869,892	-
Conditions met - transferred to revenue	(1,512,893)	-
	356,999	-
SANEDI		
Current-year receipts	1,500,000	-
Conditions met - transferred to revenue	(1,500,000)	-
	-	-

13. Other financial liabilities

At amortised cost		
DBSA - 1005665/101	54,693,517	48,506,710
The loan attracts annual interest at 12.50%		
Non-current liabilities		
At amortised cost	43,453,244	48,506,710
Current liabilities		
At amortised cost	11,240,273	-

Defaults and breaches

The municipality did not repay the loan (capital and interest).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Unwinding of discount	Total
Environmental rehabilitation	14,720,607	-	-	741,918	15,462,525
Long Service Bonus Awards	8,664,000	1,689,000	(1,573,000)	-	8,780,000
	23,384,607	**1,689,000**	**(1,573,000)**	**741,918**	**24,242,525**

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Other movements	Unwinding of discount	Total
Environmental rehabilitation	14,483,997	-	-	168,769	67,841	14,720,607
Long Service Bonus Awards	7,628,000	1,582,000	(546,000)	-	-	8,664,000
	22,111,997	**1,582,000**	**(546,000)**	**168,769**	**67,841**	**23,384,607**

Environmental rehabilitation provision

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Key assumptions used

Discount rate:	5.04% (2014: 9.44%)
CPI:	6.00 % (2014: 6.97%)

Long service awards provision

One Pangaea Financial ('OPF') has been briefed to perform an actuarial valuation of Nala Municipality's ('Nala')s long service bonus awards liability at 30 June 2015 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19).

A previous actuarial valuation was performed as at 30 June 2014 to disclose on the long service bonus awards in Nala's financial statements.

Key assumptions used

Discount rate:	8.32% (2014: 8.29%)
CPI:	6.04% (2014: 6.17%)
Salary increase rate	7.04% (2014: 7.15%)

15. Payables from exchange transactions

Trade payables	203,932,446	153,843,390
Payments received in advanced	6,719,142	4,569,999
Accrued leave pay	12,804,297	11,196,685
Accrued bonus	2,693,425	2,586,521
Other Creditors	731,723	888,082
Retentions	2,871,823	4,359,218
Prior period adjustment	-	(4,243,468)
	229,752,856	**173,200,427**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. VAT receivable/(payable)

VAT payable	-	(15,252,619)
VAT receivable	22,936,974	-

The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash received or actual payments are made.

17. Consumer deposits

Electricity and water	1,758,621	1,565,068

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held in lieu of electricity and water deposits.

18. Revenue

Service charges	137,427,764	128,117,188
Rental of facilities and equipment	305,262	60,056
Interest received (trading)	13,168,002	10,536
Discount received	120,269	-
Other income	7,508,004	12,080,194
Interest received - investment	1,783,244	1,318,580
Dividends received	5,988	6,460
Property rates	16,016,943	12,061,322
Government grants and subsidies	189,271,118	207,196,051
Fines	141,252	70,130
	365,747,846	**360,920,517**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	137,427,764	128,117,188
Rental of facilities and equipment	305,262	60,056
Interest received (trading)	13,168,002	10,536
Discount received	120,269	-
Other income	7,508,004	12,080,194
Interest received - investment	1,783,244	1,318,580
Dividends received	5,988	6,460
	160,318,533	**141,593,014**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16,016,943	12,061,322
Transfer revenue		
Government grants and subsidies	189,271,118	207,196,051
Fines	141,252	70,130
	205,429,313	**219,327,503**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

19. Property rates

Rates levied

Property rates	26,404,965	19,033,235
Less: Income forgone	(10,388,022)	(6,971,913)
	16,016,943	**12,061,322**

Valuations

Residential	1,410,068,680	1,296,134,590
Commercial	302,289,523	197,438,093
Government/State	198,627,785	27,988,800
Municipal	29,195,376	3,056,820
Agriculture	2,814,004,595	1,861,293,535
Other	54,297,150	64,536,147
	4,808,483,109	**3,450,447,985**

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R80,000 of the rateable value of residential property are exempted from taxes. A 100% rebate is granted to churches, public benefit organisations and municipal property. Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties.

Rates are levied on an monthly basis and no interest is levied on outstanding amounts.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

19. Property rates (continued)

Rates tariffs
Residential - 0.008851
SS Residential - 0.008851
SS Business - 0.017702
SS Agricultural - 0.00221275
Business - 0.017702
Industrial - 0.017702
Municipal - 0.008851
Government - 0.026553
Agricultural - 0.00221275
Multi purpose : Business - 0.017702
Multi purpose : Residential - 0.0132765
Multi purpose : Guesthouse - 0.0132765
Multi purpose : Agricultural - 0.00221275
Non permitted use - 0.035404
Public benefit organisation - 0.00221275
Education - 0.026553
Guesthouse - 0.0132765
Crech - 0.0132765
Public worship - 0.00221275
PSI - 0.00221275
Vacant - 0.035404

Rebates
Valuation rebates - R80,000
Indigent valuation rebate (additional) - R20,000

Discounts
Pensioners and disabled persons - 30%
SS Agricultural - 30%
SS Residential - 0%
Municipal - 100%
Agricultural - 50%
Multipurpose Agricultural - 50%
Public Worship - 100%
PSI - 100%

20. Service charges

Sale of electricity	64,726,309	58,825,933
Sale of water	41,435,104	42,802,519
Sewerage and sanitation charges	15,410,426	11,211,308
Refuse removal	15,855,925	15,277,428
	137,427,764	**128,117,188**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. Government grants and subsidies

Operating grants		
Equitable share	126,199,000	130,670,000
Integrated National Electrification Grant	17,878,308	-
Municipal Systems Improvement Grant	934,000	890,000
Financial Management Grant	1,800,000	1,650,000
Extended Public Works Grant	1,047,750	986,250
	147,859,058	134,196,250
Capital grants		
Electricity Distribution Grant	4,155,250	15,313,984
Municipal Infrastructure Grant	37,256,810	46,488,512
Prior period adjustment	-	11,197,305
	41,412,060	72,999,801
	189,271,118	**207,196,051**

22. Other income

Bad debts recovered	23,280	1,220
Burial income	380,148	330,855
Connection Fees	192,350	165,856
Fees earned	614,963	1,261,834
Cemetaries	7,500	21,289
LGSETA	210,814	174,420
Levies	377,363	504,012
VAT additional income on Grants: MFMA Circular 51	5,063,043	8,177,393
Sale of assets	547,531	-
Valuation certificates	30,649	42,665
Sundry income	60,363	1,400,650
	7,508,004	**12,080,194**

23. General expenses

Advertising	156,351	235,845
Auditors remuneration	2,988,737	5,058,867
Bank charges	281,115	133,933
Consulting and professional fees	3,615,611	1,623,530
Consumables	590,846	247,251
Entertainment	63,642	71,919
Hire of equipment	55,825	419,268
Group Insurance	541,165	483,438
Conferences and seminars	1,249,549	664,306
IT expenses	11,827	23,591
Group Insurance	32,417	63,158
Fuel and oil	1,650,889	1,482,213
Postage and courier	878,587	688,068
Collection cost: Incentives	790,416	496,821
Telephone expenses	867,573	961,405
Membership fees	1,197,279	737,418
Sundry expenses	5,476,162	6,221,229
Collection cost: Incentives	215,623	4,169,145
Social responsibility	3,178,287	2,369,479
Valuation roll	-	1,152,703
Other expenses	674,861	1,909
	24,516,762	**27,305,496**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

24. Employee related costs

Basic	71,672,359	67,530,439
Bonus	5,668,670	5,321,498
Medical aid - company contributions	6,248,214	5,380,816
UIF	710,595	705,969
WCA and COID	690,317	735,592
SDL	969,635	947,540
Leave pay provision charge	1,671,446	1,653,461
Travel, motor car, accommodation, subsistence and other allowances	8,211,669	7,490,246
Overtime payments	8,357,429	8,558,396
Acting allowances	918,151	457,835
Housing benefits and allowances	132,393	122,934
Pension	11,920,309	10,547,105
Employee benefits - costs	3,479,000	2,260,000
Other allowances	110,915	-
	120,761,102	**111,711,831**

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	1,320,921	1,231,755
Car Allowance	163,736	142,236
Contributions to UIF, Medical and Pension Funds	-	2,452
	1,484,657	**1,376,443**

Remuneration of Chief Financial Officer - Busakwe S (Appointed 01/11/2013)

Annual Remuneration	871,763	510,677
Car Allowance	229,548	123,423
Contributions to UIF, Medical and Pension Funds	-	2,452
	1,101,311	**636,552**

Remuneration of Executive Director Corporate Services - Molupe BP

Annual Remuneration	768,889	683,953
Car Allowance	341,530	338,038
Contributions to UIF, Medical and Pension Funds	-	2,452
	1,110,419	**1,024,443**

Remuneration of Executive Director Engineering Services - Moleko M

Remuneration of Executive Director Infrastructure Development - Malebane K (Appointed 01/09/2013)

Annual Remuneration	824,150	641,667
Car Allowance	197,774	159,406
Contributions to UIF, Medical and Pension Funds	-	2,044
	1,021,924	**803,117**

25. Remuneration of councillors

Councillors	4,959,988	4,752,946
Travel expenses	1,676,999	779,967
Cellphone expenses	495,615	1,444,086
	7,132,602	**6,976,999**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
26. Bad debts and provision for bad debts		
Opening Balance	201,455,416	343,239,509
Contributions to debt impairment provision	57,960,158	32,216,556
Debts written off	-	(197,308,909)
	259,415,574	**178,147,156**
27. Investment revenue		
Dividend revenue		
Unlisted financial assets - Senwes	5,988	6,460
Interest revenue		
Bank and other	1,783,244	1,318,580
	1,789,232	**1,325,040**
28. Depreciation and amortisation		
Property, plant and equipment	46,467,130	44,644,296
Intangible assets	392,112	42,976
Prior period adjustment	-	751,088
Other	(6,052)	15,281
	46,853,190	**45,453,641**
29. Finance costs		
Non-current borrowings	26,299,783	20,904,250
Trade and other payables	184	8,580
SARS: PAYE	-	181,879
	26,299,967	**21,094,709**
30. Auditors' remuneration		
Fees	2,988,737	5,058,867
31. Contracted services		
Meter Reading Services	1,859,103	2,856,099
Specialist Services	12,367,167	12,114,944
Other Contractors	12,685	2,383,874
	14,238,955	**17,354,917**
32. Bulk purchases		
Electricity	59,880,187	53,317,616
Water	37,143,376	33,042,255
	97,023,563	**86,359,871**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
33. Cash generated from operations		
(Deficit) surplus	(43,687,273)	7,700,571
Adjustments for:		
Depreciation and amortisation	46,853,190	45,453,641
Gain on sale of assets and liabilities	401,800	-
Impairment deficit	6,444,299	-
Debt impairment	57,960,158	32,216,556
Movements in retirement benefit assets and liabilities	3,363,000	1,195,000
Movements in provisions	857,918	1,272,610
Other non-cash items	(13,284,603)	(4,275,892)
Changes in working capital:		
Inventories	122,712	(448,385)
Other receivables from exchange transactions	(5,085,999)	(1,064,860)
Consumer debtors	(40,271,677)	(29,028,829)
Payables from exchange transactions	56,552,429	16,162,948
VAT	(38,189,593)	18,582,079
Unspent conditional grants and receipts	(5,053,855)	(8,828,140)
Consumer deposits	193,553	132,644
	27,176,059	**79,069,943**
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	9,988,215	14,460,450
Total capital commitments		
Already contracted for but not provided for	9,988,215	14,460,450

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

35. Contingencies

SAMWU on behalf of members (various employees) for an application in the Labour Court against Nala Local Municipality	-	60,000
Patula Balekane Joint Venture issued summons against the Municipality for payment in respect of oustanding payments due to the plaintiff	2,611,331	2,200,000
SI Swartbooi was preivously dismissed after disciplanry proceedings were instituted and the matter has been escalated to the Labour Court	-	1,700,000
Litigation with regard to the municipality failing to execute their duties	-	120,000
Manama and 30 others: Interdict for interrupting electricity and restoration of electricity supply	250,000	-
Theko Mogoje and 12 other: Charged for public violence, injury to property and possession and unauthorised use of fire arms, amongst others	250,000	-
	3,111,331	**4,080,000**

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Figures in Rand	2015	2014

36. Prior period errors

2015		
Inventories	-237,354	Corrections to stock
Consumer debtors	-6,339,524	Unmetered consumption and account corrections
Property, plant and equipment	935,748,046	Asset register done by Ducharme
Intangible assets	1,010,874	Asset register done by Ducharme
Heritage assets	-11,070	Asset register done by Ducharme
Other financial liabilities -	48,506,710	Reclassification
Payables from exchange trans	4,243,468	Invoices not captured
VAT payable	455,421	Invoices not captured
Other financial liabilities	-48,506,710	Reclassification
Provisions	-168,769	Adjustment to provision for rehabilitation of landfill site
Service charges	1,636,038	Indigent subsidy for April 2014
Rental of facilities and equipm	-9,000	Rental not charged
Government grants and subs	-11,197,305	Donated assets capitilised
Other income	182	Correction of levy
Employee related costs	82,463	SDL not captured
Depreciation and amortisation	-36,931,470	Asset register done by Ducharme
Finance costs	181,879	Interest on SARS PAYE
Repairs and maintenance	111,300	Invoices not captured
Bulk purchases	74,438	Correction to water stock
General Expenses	326,271	Invoices not captured
Accumulated surplus	-888,875,890	Asset register done by Ducharme

2014		
Assets	-10,172,684.60	Correction of duplication (Asset provision account)
Cash	7,700.00	Corrections from bank reconciliation
Creditor	-2,038,126.83	Correction of contracted services (Dinatla) and errors on third party creditors
Debtors	7,942,630.83	Unmetered services
Depreciation	144,371.59	IMESA correction on infrastructure
Inventory	90,893.39	Water inventory
Other debtors	816,998.46	Overpayment correction
Provision	-14,483,997.00	Provision for rehabilitation of landfill sites
Provisions	1,915,680.61	Bonus provision correction
VAT	-1,425,977.10	VAT correction on unmetered services
Depreciation	-144,371.59	IMESA correction on infrastructure
General cost	1,753,236.75	Correction of contracted services (Dinatla)
Repairs	2,280.00	Invoice not captured
Salaries	2,110,721.90	Bonus provision and allocation error
Serv charges	-6,854,040.58	Unmetered services
Council	-602,718.36	Allocation error and overpayment correction
Other inc	149,272.23	VAT correction
Bulk purchases	-90,893.39	Water inventory

37. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R1,565,457,312 and that the municipality's total assets exceed its liabilities by R1,565,457,312.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	944,682	510,017
Current year subscription / fee	1,344,144	699,896
Amount paid - current year	(2,288,826)	(265,231)
	-	**944,682**

Audit fees

Opening balance	1,047,587	529,149
Current year subscription / fee	2,993,609	5,058,867
Amount paid - current year	(5,163,507)	(4,540,429)
Other movements	1,131,226	-
	8,915	**1,047,587**

PAYE, UIF and SDL

Opening balance	952,676	1,611,715
Current year subscription / fee	13,389,836	12,472,651
Amount paid - current year	(14,611,458)	(13,131,690)
Other movements	(168,201)	-
	(437,147)	**952,676**

Pension and Medical Aid Deductions

Opening balance	99,712	1,112,954
Current year subscription / fee	29,244,068	27,698,141
Amount paid - current year	(29,306,266)	(28,711,383)
Other movements	13,311	-
	50,825	**99,712**

VAT

VAT receivable	22,936,974	-
VAT payable	-	15,252,619
	22,936,974	**15,252,619**

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje T.A	16,524	38,151	54,675
MN Mashiya	2,015	-	2,015
Moses S.S	498	-	498
Bopiko M.H	121	-	121
Tutubala M.M	437	-	437
Nieuwhout P.T	4,848	-	4,848
HJ Bothma	9,710	2,608	12,318
Mokolutlo R.J	398	-	398
Radebe P.S	4,524	147	4,671
Moepi P.A	387	-	387
Moshane Z.M	426	-	426
NM Motsoeneng	1,645	4,282	5,927
TL Moshodi	40	-	40
Masisi M.D	1,378	-	1,378
	42,951	**45,188**	**88,139**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TA Mogoje	12,772	41,212	53,984
MD Masis	1,601	16,190	17,791
SS Moses	849	5,031	5,880
MH Bophiko	406	-	406
PT Nieuwout	4,444	1,955	6,399
Radebe P.S	2,547	26,402	28,949
Moepi P.A	823	1,271	2,094
Moshane Z.M	608	-	608
Dongeni M.J	-	266	266
Botha H.J	1,790	8,711	10,501
Mohloare T.A	-	280	280
Maas V	355	14,687	15,042
Ramaele P	704	8,132	8,836
Lenake M.R	113	-	113
Marumule M.S	51	-	51
Thebehae T	873	5,980	6,853
Mashiya M.N	2,381	4,231	6,612
	30,317	**134,348**	**164,665**

39. Unauthorised expenditure

Unauthorised expenditure	-	97,795,332

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	33,256,049	11,295,639
Interest	25,557,865	20,849,281
Legal fees	48,292	390,742
Arbitration awards	193,372	720,387
Written off	(59,055,578)	-
	-	**33,256,049**

There are no disclosure of the causes for these expenditure, the steps taken to recover the expenditure or any steps taken to investigate these expenditure.

41. Irregular expenditure

Opening balance	99,858,746	38,922,496
Add: Irregular Expenditure - current year	4,956,845	60,936,250
Written off	(104,815,591)	-
	-	**99,858,746**

42. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	123,772	-	123,772
Other receivables from exchange transactions	-	2,616,148	2,616,148
Consumer debtors	-	37,265,167	37,265,167
Cash and cash equivalents	-	14,876,584	14,876,584
	123,772	**54,757,899**	**54,881,671**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	11,240,273	11,240,273
Trade and other payables from exchange transactions	229,752,856	229,752,856
Consumer deposits	1,758,621	1,758,621
	242,751,750	**242,751,750**

2014

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	118,176	-	118,176
Trade and other receivables from exchange transactions	-	9,894,396	9,894,396
Consumer debtors	-	48,928,923	48,928,923
Cash and cash equivalents	-	31,954,136	31,954,136
	118,176	**90,777,455**	**90,895,631**

Financial liabilities

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

Financial instruments disclosure (continued)

	At amortised cost	Total
Other financial liabilities	48,506,710	48,506,710
Trade and other payables from exchange transactions	177,443,895	177,443,895
Taxes and transfers payable (non-exchange)	1,565,068	1,565,068
	227,515,673	**227,515,673**

Financial instruments in Statement of financial performance

2015

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	1,783,244	1,783,244
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(26,299,967)	(26,299,967)
Impairment loss	(57,960,158)	(57,960,158)
	(82,476,881)	**(82,476,881)**

2014

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	1,318,580	1,318,580
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(20,912,830)	(20,912,830)
Impairment loss	(32,216,556)	(32,216,556)
	(51,810,806)	**(51,810,806)**

43. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Members of key management	Various

44. Comparative figures

Certain comparative figures have been reclassified to enhance presentation and/or where consequential amendments, due to other standards becoming effective, was required.

45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

46. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	54,693,517	48,506,710

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The expenses incurred, as listed hereunder, have been approved/condoned		
Emergencies	3,029,570	3,155,808
Sole suppliers	713,934	420,953
Other	152,237	162,922
	3,895,741	**3,739,683**

48. Distribution Losses

Electricity		
Rand		
Sold	62 718 927	60 690 628
Purchased	55 901 192	51 141 099
Units		

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
Sold	60 151 169	54 494 103
Purchased	75 352 042	74 678 228
Tariff		
Sold	1.04	1.11
Purchased	0.74	0.68
Water		
Rand		
Sold	45 104 846	57 414 670
Purchased	20 120 723	32 967 816
Units		
Sold	3 194 263	4 549 951
Purchased	4 795 790	4 797 590
Tariff		
Sold	14.12	12.62
Purchased	4.2	6.87

49. Budget differences

Material differences between budget and actual amounts

Refer to the Annual Report for information regarding these differences.

Differences between budget and actual amounts basis of preparation and presentation

Refer to the Annual Report for information regarding these differences.

Changes from the approved budget to the final budget

Refer to the Annual Report for information regarding these differences.